Canada Safeway Limited
Annual Report 1981

file

Highlights	1981	1980
Sales	$3,006,302,000	$2,711,889,000
Net Income	72,583,000	66,473,000
Number of Stores at Year-end	315	308
Total Square Feet of Stores at Year-end	7,972,000	7,552,000
Number of Employees at Year-end	24,539	23,297

CHAIRMAN'S MESSAGE

"As we anticipated, 1981 brought challenge and change.

A recessionary economy supplied plenty of challenge. Some changes came in response to economic circumstances, but most were the result of anticipating the needs of consumers — and the country — in the years to come.

Coping with double-digit inflation and diminished buying power, consumers were forced to spend cautiously and selectively.

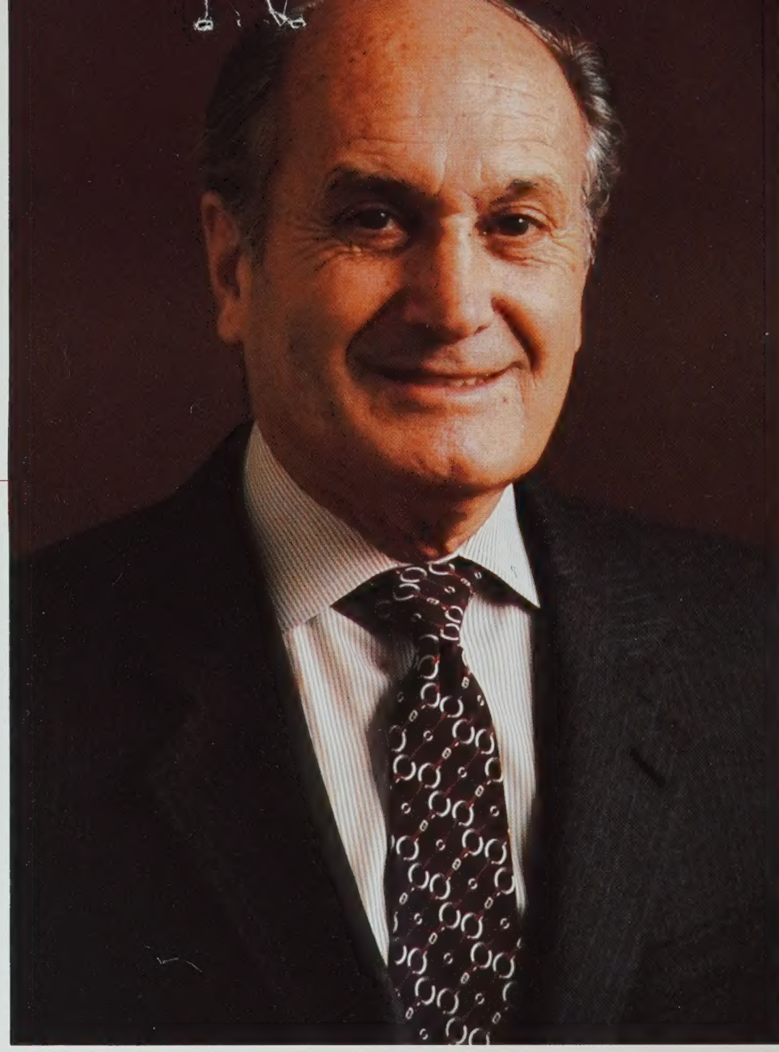
Still, 1981 consolidated sales for Canada Safeway Limited topped $3 billion, an increase of nearly 11 percent over 1980, which was a 53-week fiscal year. Net income for 1981 was more than 9 percent above the 1980 level.

If figures are adjusted to comparable 52-week periods, the respective growth rates were 13.0 percent (sales) and 11.3 percent (net income).

In a year when unemployment in Canada averaged over eight percent, I'm pleased to be able to say that Safeway stores, warehouses and other support facilities scattered from Victoria to Toronto provided more than 1,300 additional jobs in 1981.

It is a tribute to the talent and dedication of Canada Safeway's nearly 25,000 employees that the Company provides the quality and service demanded by today's discriminating, nutrition-conscious, budget-minded customers.

It takes more than quality, service and competitive prices to attract customers and sustain sales growth. With that in mind, we continued with our scheduled building programme during



A. G. Anselmo

1981, despite complications of escalating interest rates and construction costs.

Our long-standing tradition of responsible corporate citizenship took several new turns last year. For example:

• We worked with appropriate government agencies to help pave the way to metric conversion.

• All of our stores now have checkstand access, special baskarts that can be attached to wheelchairs, and reserved parking spaces to better serve handicapped shoppers.

• We have long been committed to maximizing our buying and selling of foodstuffs grown and processed domestically. In June, we began helping to market some of these foodstuffs to the rest of the world, by organising an Export Development Department (described later).

We're proud of our employees and their families for their civic involvement. One of the most touching examples last year came from Moose Jaw, Saskatchewan. The six-year-old son of one of our employees raised $517 for the Canadian Cancer Society by running a five-kilometre "Marathon of Hope" in the spirit of the late Terry Fox. Little Brad Delorey, like his hero, has an artificial leg.

Safeway's new insigne and logo symbolise the spirit of change, and the readiness for the challenges the future always brings. The prototype of the contemporary design made its debut in Banff, Alberta, when a Safeway tractor and trailer arrived for unveiling at a meeting of managers from Safeway operations all over the world."

THE YEAR IN REVIEW

Sales and Net Income
Considering prevailing economic conditions, Canada Safeway and its subsidiaries had a successful 1981, achieving $3.0 billion in sales and $72.6 million in net income (see details in Financial Section).

Stores
As of fiscal year-end 1981, the Company operated 315 stores: 290 in Canada and 25 in West Germany. During the year, we opened 14 new superstores and one new Food Barn, and closed 8 older stores. Our German subsidiary has opened two stores since the close of the year and has four more scheduled for 1982.

The new Canadian stores

average slightly over 40,000 square feet, in contrast to the 1980 new store average of 38,850.

Most of these spacious new facilities feature specialty departments that are proving popular with today's customers.

In-store bakeries and delicatessens, cheese shops,

photo and gift areas and natural foods centres attract those who favour one-stop shopping at its finest.

Other consumers, more concerned about savings than selection, prefer the new Food Barns we've opened. The first of these no-frills, warehouse-type stores made its debut in Calgary in March. The second, converted from a store the company had closed, opened in November. It is located in Nanaimo, B.C.

"Recycling" stores for other uses such as Food Barns makes good economic sense. In many instances facilities outmoded for supermarkets enjoy favourable lease terms and occupy valuable sites. Conversion lets us retain an important part of the sales base from which profits are generated.

Several more Food Barns, both conversions and new units, are planned for 1982.

More than 40 new superstores are in the pipeline. Most are planned as "new business" stores; others will replace older units that are scheduled to close.

Backstage
Like the stores they serve, support facilities were improved during 1981. Examples are:
• a new salvage warehouse for the Calgary Division;
• a new maintenance shop for field vehicles at the processing plant in Taber, Alberta;
• a new, larger facility for truck repair in the Edmonton Division;
• enlarged and modernised receiving and storage areas at the jam and jelly plant in Burnaby, B.C.

Industrial construction plans for 1982 include:
• a major addition to the Edmonton Division's meat depot and miscellaneous perishables warehouse;
• expansion of the Lucerne milk plant in Edmonton;
• completion of a three-year programme to enlarge and improve the distribution centre in Burnaby;
• installation of a modern freezing tunnel at our vegetable processing plant in Lethbridge, Alberta.

In the right places
Since its inception in 1929, Canada Safeway has located in some of the fastest-growing areas of the country. The

vast majority of our stores now open—plus those under construction and on the drawing boards—are in cities with growth rates above the national average.

On a provincial level, over the past two years annual population growth has been pegged at approximately 3.5 percent in Alberta and 2.5 percent in British Columbia. These trends are expected to continue.

Safeway's penchant for being in the right place at

the right time should prove even more valuable in the years ahead, since only modest countrywide population gains are expected. Census officials project *overall* growth through 1985 to be only about one percent per year.

Safeway is also paying close attention to other demographic shifts. Already, more than half of all women over age 16 work outside the home. By 1990, as many as two-thirds may be in the labour force.

This can mean smaller families, with less time for shopping. Such consumers tend to favour our one-stop concept—a primary reason for Safeway's commitment to superstores.

Food Barns too, represent adaptivity to these changing times. Because they are plain and offer more limited variety and more limited service, they can be operated more economically than a conventional supermarket.

The savings are passed on in the form of lower prices to help customers stretch their food dollars.

Expense control

Safeway, too, is serious about stretching dollars. This commitment requires never-ending vigilance in the area of expense control. Every penny counts.

Despite the factors that forced many operating expenses upward—such as unprecedented energy bills and paychecks—a rigid monitoring program helped to keep overall expense ratios in line.

People

Much of the credit for Safeway's effective cost control effort goes to our employees, who are trained to apply strict discipline to expenditures. This aspect of training crosses all functional lines, instilling a "watch costs" attitude throughout—whether employees work in offices, warehouses or stores, or drive trucks.

Although individual contributions to Safeway's success do not appear on the balance sheet, our employees are our most important assets—we think unmatched anywhere.

The Company continuously develops and refines programmes to nurture and strengthen these assets. Training—on-the-job and in the classroom—is a top priority.

One example from 1981 is the Calgary Division's new retail training school, opened in December.

Modern technology

The commitment to excellence also requires a continuing investment in new methods and new tools to

increase efficiency.

One significant phase of this investment focuses on state-of-the-art computer technology. During 1981, we introduced an "interactive" data processing system that is a first in the Canadian supermarket industry, and may well be the first in any type of retail organization.

With this unified system, material provided by users in a broad array of far-flung operations is assimilated into a central data bank. This assures more accurate, up-to-the-minute information than was possible before. To date, the network covers accounting and merchandising functions and personnel record-keeping, with other operations to be added later.

In 1982, for example, our scanner-equipped stores will be brought into the computer network. The objectives

here will be more efficient store ordering and inventory control, and quicker response to changes in buying habits. All of these improvements translate into additional consumer benefits.

LOOKING FORWARD

The Conference Board's 1982 forecasts for the national economy are rather somber — recurring double-digit inflation, unemployment in excess of eight percent, and continuing pressures from high interest rates.

Nevertheless, we at Safeway still believe the future belongs to those who are prepared to grow. We are planning for growth, and our on-going commitments to new facilities, new formats and new training programmes reflect those plans.

Our work with various governmental agencies to create more export opportunities for Canadian products is yet another example of our confidence in the future.

Canada has a trade deficit in many types of processed foods. To help counteract this situation we have made a commitment to assist in finding foreign markets for Canadian producers. Through our newly formed Export Development Department we help to place products from independent processors as well as our own home-produced Safeway brands. This effort has received strong support from federal and provincial agencies.

Canada Safeway's growth in its first 52 years represents a vote of confidence by three generations of consumers. Our future growth depends on continuing to do all in our power to remain responsive to their needs and to continue to merit their approval.

By listening to them, by cooperating with their — and our own — representatives in government, by constantly practicing corporate good citizenship and encouraging it among our employees, we are prepared to do just that.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Canada Safeway Limited and Subsidiaries
52 Weeks Ended January 2, 1982 (With Comparative Figures for 53 Weeks Ended January 3, 1981) (thousands)

	1981	1980
Sales	$3,006,302	$2,711,889
Cost of sales	2,375,956	2,154,733
Gross profit	630,346	557,156
Operating and administrative expenses	516,220	445,748
Operating profit	114,126	111,408
Interest expense (note 3)	(9,401)	(7,126)
Loss on translation of foreign currencies	(193)	(45)
Interest income (note 2)	22,254	11,236
Equity in earnings of affiliates	2,911	2,188
Other income, net	1,398	1,189
Income before income taxes	131,095	118,850
Provision for income taxes	58,512	52,377
Net income	72,583	66,473
Retained earnings at beginning of period	472,587	406,290
Cash dividends:		
Preferred shares	(76)	(83)
Common shares	—	(112)
Gain on acquisition of $4.40 preferred shares	—	19
Retained earnings at end of period	$ 545,094	$ 472,587

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Canada Safeway Limited and Subsidiaries
52 Weeks Ended January 2, 1982 (With Comparative Figures for 53 Weeks Ended January 3, 1981) (thousands)

	1981	1980
Funds provided:		
Net income	$ 72,583	$ 66,473
Add charges (credits) to income not requiring funds:		
Depreciation and amortization	32,727	27,413
Increase in deferred income taxes	2,710	2,342
Equity in earnings of affiliates	(2,911)	(2,188)
Total funds provided from operations	105,109	94,040
Additions to long-term debt	3,266	15,884
Decrease in notes receivable from parent and affiliated companies	4,361	4,315
Retirements or sales of property	3,023	4,323
Other sources, net	175	2,754
	115,934	121,316
Funds used:		
Additions to property	82,152	61,409
Loans to parent and affiliated companies	—	38,721
Payments on long-term debt	6,402	7,628
Retirement of preferred shares	135	127
Cash dividends	76	195
	88,765	108,080
Increase in working capital	$ 27,169	$ 13,236

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Canada Safeway Limited and Subsidiaries as of January 2, 1982 (With Comparative Figures as of January 3, 1981) (thousands)

Assets	1981	1980
Current assets:		
Cash	$ 30,367	$ 67,655
Notes receivable from parent and affiliated companies, current (note 2)	46,151	—
Receivables	18,254	16,811
Merchandise inventories	315,722	258,118
Prepaid expenses	5,946	5,623
Total current assets	416,440	348,207
Other assets:		
Notes receivable from parent and affiliated companies (note 2)	65,509	69,870
Investment in affiliated companies	12,298	10,120
Other notes receivable and investments	777	727
	78,584	80,717
Property:		
Land	39,418	27,370
Buildings	78,430	71,723
Leasehold improvements	72,879	59,493
Fixtures and equipment	253,125	214,616
Property under capital leases	101,698	103,153
	545,550	476,355
Less accumulated depreciation and amortization.	209,742	186,961
	335,808	289,394
	$830,832	$718,318

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1981	1980
Current liabilities:		
Bank overdraft	$ 28,533	$ —
Current obligations under capital leases	4,235	4,169
Payables and accruals	147,343	135,476
Income taxes payable	7,410	12,766
Due to parent and affiliated companies (note 2)	5,954	—
Total current liabilities	193,475	152,411
Long-term debt:		
Obligations under capital leases (note 4)	63,168	66,937
Notes payable, long-term (note 5)	14,336	13,703
	77,504	80,640
Deferred income taxes	8,805	6,095
Deferred gain on translation of foreign currencies	1,444	1,940
Shareholders' equity:		
Stated capital (note 7):		
Preferred shares		
$4.40 cumulative redeemable Issued 17,095 and 18,447 shares	1,710	1,845
Common shares Issued 280,000 shares	2,800	2,800
Retained earnings	545,094	472,587
	549,604	477,232
	$830,832	$718,318

On Behalf of the Board:

A.G. Anselmo
Director

R.G. Ham...
Director

1. Summary of Significant Accounting Policies:

Principles of Consolidation:
The financial statements include the accounts of the Company and all its subsidiaries, including the following:

Lucerne Foods, Ltd.
Macdonalds Consolidated Limited
Empress Foods Ltd.
"Safeway" Supermarkt GmbH (West Germany)
Canada Safeway International Finance Corp. (United States)

All intercompany transactions have been eliminated in consolidation. The accounts of "Safeway" Supermarkt GmbH are included for its fiscal year ended September 30.

The investment in affiliated companies is carried at the amount of equity in net book value.

Interest Expense:
Interest cost incurred in connection with construction in progress is capitalized.

Translation of Foreign Currencies:
Cash, receivables, current liabilities and long-term debt in foreign currency financial statements are translated at the rate of exchange prevailing at the end of the fiscal period of the foreign subsidiary. Other assets and liabilities and related depreciation or amortization expense are translated at the rates in effect when acquired or assumed. Revenues and expenses, other than depreciation and amortization, are translated at weighted average exchange rates which were in effect during the year.

Unrealized exchange losses from translation are included in income currently when in excess of gains deferred from prior years. Unrealized exchange gains are deferred until offset by future exchange losses. Such accumulated deferred net gains were $1,444,000 at year-end 1981.

Provision for Income Taxes:
The Company provides for deferred income taxes which arise principally as a result of claiming depreciation for income tax purposes in excess of that taken for financial purposes and recognizing certain expenses for financial purposes not yet claimed for income tax purposes.

The effective income tax rates were 44.6% in 1981 and 44.1% in 1980. The principal factors causing these rates to be lower than statutory rates were inventory allowances and manufacturing and processing credits.

Merchandise Inventories:
Inventories are valued at the lower of cost or replacement market, determined by the first-in, first-out and retail inventory methods.

Property and Depreciation:
Property is stated at historical cost. Depreciation is computed for financial purposes on the straight-line method at rates which are designed to write off the assets over their estimated useful lives substantially as follows:

Stores and other buildings	2½ – 5%
Fixtures and equipment	5 – 20%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Such buildings and leasehold improvements which are major are amortized over the shorter of the remaining period of the lease or the estimated useful lives of the assets, while minor improvements are amortized over the shorter of the remaining period of the lease or six years.

Property under capital leases is amortized over the terms of the leases. Accumulated amortization of property under capital leases was $48,979,000 and $47,118,000 at year-ends 1981 and 1980, respectively.

Depreciation and amortization expense for property of $32,715,000 in 1981 and $27,413,000 in 1980 included amortization of property under capital leases of $4,604,000 and $4,630,000, respectively.

Employee Retirement and Profit-Sharing Plans:
The Company and its domestic subsidiaries have a contributory, trusteed Retirement Plan, which may be amended or terminated at any time, for eligible Canadian employees not covered by other retirement plans to which the Company contributes. The Company's practice is to contribute the full normal cost each year as determined using the aggregate method; accordingly, there is no unfunded past service liability. Contributions charged to income for the Retirement Plan were $1,176,000 in 1981 and $1,232,000 in 1980. Contributions charged to income for various pension plans under union contracts were $11,403,000 in 1981 and $11,392,000 in 1980. The contribution charged to income for the non-contributory profit-sharing plan for eligible Canadian employees was $4,433,000 in 1981 and $3,694,000 in 1980.

2. Transactions with Parent and Affiliated Companies:

Notes receivable from an affiliated company, amounting to $55,624,000 at year-end 1981, carry interest rates of 9½% and 8½% and are secured by mortgaged properties. Payments are to be received over remaining terms ranging from 16 to 18 years as of the end of 1981. The amount receivable within one year was $4,589,000 at year-end 1981.

Notes receivable from parent company, amounting to $56,036,000 at year-end 1981, are unsecured and carry interest rates which ranged from 14% to 22% in 1981. The notes receivable mature in 1982 as to $41,562,000 and in 1983 as to $14,474,000.

Amounts currently payable to parent company for merchandise purchases were $5,954,000 at year-end 1981.

Interest income on all transactions with parent and affiliated companies amounted to $14,767,000 in 1981 and $6,137,000 in 1980.

There were no other significant transactions with parent or affiliated companies in 1980 or 1981.

3. Interest Expense:

Interest expense consisted of the following (in thousands):

	1981	1980
Obligations under capital leases	$ 7,427	$7,478
Notes payable, long-term	1,737	191
Short-term borrowings and other	1,140	86
	10,304	7,755
Less capitalized interest	903	629
	$ 9,401	$7,126

4. Lease Obligations:

The Company and its subsidiaries occupy primarily leased premises, which were covered by 361 leases at year-end 1981. Of these leases 188 are considered capital leases and the remainder are operating leases.

Most leases have renewal options with terms and conditions similar to the original lease. Of all the leases, 132 can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the landlords.

The Company owns most of its fixtures and equipment.

The following is a schedule by years of future minimum rental payments required under capital leases and under operating leases that have initial or remaining noncancellable terms in excess of one year as of year-end 1981 (in thousands):

	Capital Leases	Operating Leases
1982	$ 11,637	$ 12,976
1983	11,272	13,123
1984	10,709	12,992
1985	9,913	12,261
1986	9,178	11,588
Later years	87,956	114,881
Total minimum lease payments	140,665	$177,821
Less executory costs	2,103	
Net minimum lease payments	138,562	
Less amount representing interest	71,159	
Present value of net minimum lease payments	67,403	
Less current obligations	4,235	
Long-term obligations	$ 63,168	

Capital lease terms range principally from 20 to 30 years, with interest rates ranging from 4% to 15%. In addition to minimum lease payments, contingent rentals may be paid under certain store leases on the basis of the stores' sales in excess of stipulated amounts. Contingent rentals on capital leases amounted to $1,956,000 in 1981 and $2,034,000 in 1980.

The following schedule shows the composition of total rental expense for all operating leases (in thousands):

	1981	1980
Property leases:		
Minimum rentals	$19,747	$16,561
Contingent rentals	927	766
Less rentals from subleases	(2,777)	(1,124)
	17,897	16,203
Equipment leases	3,789	2,902
	$21,686	$19,105

5. Notes Payable, Long-Term:

Notes payable, long-term are secured by properties, have remaining terms ranging from 2 to 19 years, and bear interest from 7% to 12%.

Aggregate annual maturities of notes payable for the five years subsequent to year-end 1981 are: 1982 – $345,000, 1983 – $362,000, 1984 – $342,000, 1985 – $379,000, 1986 – $414,000.

6. Commitments:

The Company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. These unrecorded commitments amounted to approximately $5,800,000 at year-end 1981.

The Company also has purchase commitments for certain dairy commodities amounting to $12,300,000 at year-end 1981.

7. Stated Capital:

Under the terms of issue of the $4.40 preferred shares, a fund of $300,000 (expenditures from which are to be replenished by July 1, annually) is set aside for the purchase of shares, if available at par value or less, for cancellation. The Company acquired through the purchase fund and cancelled 1,352 shares in 1981 and 1,462 shares in 1980. The preferred shares are also subject to redemption on call at a premium of $.50 per share.

8. Financial Information By Geographic Area (thousands):

	Canada		Foreign	
	1981	1980	1981	1980
Sales	$2,881,618	$2,562,980	$124,684	$148,909
Gross profit	604,015	525,494	26,331	31,662
Operating and administrative expenses	491,725	418,551	24,495	27,197
Income before income taxes	123,690	111,458	7,405	7,392
Provision for income taxes	56,280	50,008	2,232	2,369
Net income	67,410	61,450	5,173	5,023
Net working capital	213,988	187,213	8,977	8,583
Total assets	727,623	616,915	103,209	101,403
Net assets	511,927	444,514	37,677	32,718

The Company has as its principal business the operation of retail supermarkets and there is no separately reportable industry segment.

Peat, Marwick, Mitchell & Co.
Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canada Safeway Limited as at January 2, 1982 and the consolidated statements of income and retained earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 2, 1982 and the results of its operations and the changes in its financial position for the 52 weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding 53 week period.

Peat, Marwick, Mitchell & Co.

Vancouver,
British Columbia
March 5, 1982

Chartered Accountants

Retail Divisions

As of fiscal year-end 1981, Canada Safeway Limited operated 315 retail stores, of which 290 were in Canada and 25 were in West Germany.

Canada

Calgary Division, R. H. Kinnie, 46 Stores
Edmonton Division, D. L. Olson, 51 Stores
Regina Division, N. M. Knebel, 27 Stores
Toronto Division, N. D. Fingler, 26 Stores
Vancouver Division, R. F. Hendy, 92 Stores
Winnipeg Division, V. E. Fahey, 48 Stores

West Germany

Germany Division, M. J. Filzek, 25 Stores

Auditors

Peat, Marwick, Mitchell & Co., Vancouver

Transfer Agent & Registrar

The Royal Trust Company, Winnipeg, Montreal, Toronto, Vancouver and Calgary

Board of Directors

A. G. Anselmo, Calgary, Chairman
J. D. Edmonds, Ottawa
V. E. Fahey, Winnipeg
N. D. Fingler, Toronto
R. J. Hansell, Winnipeg
R. F. Hendy, Vancouver
D. E. Jones, Winnipeg
R. H. Kinnie, Calgary
N. M. Knebel, Regina
D. L. Olson, Edmonton

Principal Officers

A. G. Anselmo, Calgary, Chairman, President and Chief Executive Officer
V. E. Fahey, Winnipeg, Vice President
N. D. Fingler, Toronto, Vice President
R. F. Hendy, Vancouver, Vice President
R. H. Kinnie, Calgary, Vice President
N. M. Knebel, Regina, Vice President
D. L. Olson, Edmonton, Vice President
D. M. Jarvis, Toronto, Vice President
A. R. Paton, Vancouver, Vice President and Treasurer
V. L. Pinchin, Winnipeg, Vice President
R. J. Hansell, Winnipeg, Secretary

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